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FM SECSTATE WASHDC

TO AMEMBASSY JAKARTA

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E.O. 11652: N/A

TAGS: EFIN, ID

SUBJECT:PROPOSED GOI POLICY CHANGES ON FOREIGN INSURANCE
COMPANIES

REF: A) JAKARTA 4645 B) STATE 055424 C) JAKARTA 0316

1. SUGGEST EMBOFF MEET WITH MOHAMAD HASIJIM FOR PURPOSE
OF RESPONDING TO HIS JANUARY 9 REQUEST FOR USG REACTIONS
TO GOI PROPOSALS FOR REGULATING FUTURE PARTICIPATION BY
FOREIGN COMPANIES IN INDONESIA'S INSURANCE BUSINESS.
EMBOFF MAY DRAW ON FOLLOWING AS APPROPRIATE.

2. WE APPRECIATE VERY MUCH OPPORTUNITY EXTENDED BY
HASIJIM TO COMMENT ON LEGISLATION AFFECTING U.S. COMPANIES
WHILE IT IS STILL BEING FORMULATED. WE MUST ACKNOWLEDGE,
HOWEVER, HEAVY RELIANCE ON INFORMATION PROVIDED BY TWO
U.S. COMPANIES (SET FORTH IN PARAS 3-6 BELOW).

3. TWO LOCAL U.S. INSURANCE FIRMS HAVE ADVISED US THAT
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HASIJIM'S CHARACTERIZATION OF INSURANCE BUSINESS IN

INDONESIA (PARA 2, REF C) DOES NOT ACCORD WITH THEIRS. WHILE DECLINING COMMENT ON WHETHER FOREIGN FIRMS ARE "GETTING INCREASING SHARE OF MARKET AT EXPENSE OF INDONESIAN FIRMS" (PARA 2 REF C), AIU AND AFIA CONTEND THAT FOREIGN FIRMS DEFINITELY DO NOT "DOMINATE" INDONESIAN MARKET. ON CONTRARY, THEY CLAIM THAT

AT PRESENT FOREIGN FIRMS HANDLE AT BEST NO MORE THAN 20 PERCENT OF INSURANCE TRANSACTIONS IN INDONESIA AND THAT IN MOST OTHER DEVELOPING COUNTRIES MORE THAN HALF OF LOCAL INSURANCE BUSINESS GOES TO LOCAL INSURANCE COMPANIES.

4. THIS IS REPORTEDLY BECAUSE FOREIGN AND LOCAL INSURANCE COMPANIES SERVE, ESSENTIALLY, TWO DIFFERENT GROUPS OF CUSTOMERS. MAIN REASON U.S. INSURANCE COMPANIES ENTERED INDONESIA WAS TO BETTER SERVE THEIR U.S. BUSINESS CLIENTS WHO HAVE INVESTED OR ARE OTHERWISE OPERATING IN INDONESIA. LATTER ARE ACCUSTOMED TO COVERAGES, PRACTICES, AND SERVICE OF THEIR CO-NATIONAL INSURANCE COMPANIES AND ARE REASSURED BY IMMEASURABLY GREATER SIZE OF THEIR ASSETS AND WORLD-WIDE SPREAD OF THEIR RISKS. GENERAL INSURANCE BUSINESS GENERATED BY INDONESIAN ENTERPRISES, STATE AND PRIVATE, IS MOST LIKELY TO GO TO INDONESIAN INSURANCE FIRMS, BECAUSE OF GOI REGULATIONS AND STRENGTH OF LOCAL SOCIAL AND BUSINESS RELATIONSHIPS.

5. U.S. INSURANCE COMPANIES SAY THEY DID NOT ENTER INDONESIA FOR PURPOSE OF COMPETING WITH INDONESIAN INSURANCE COMPANIES FOR BUSINESS GENERATED BY INDONESIAN ENTERPRISES, AND THEY DO NOT ASPIRE TO DOMINATE THIS BUSINESS.

6. BECAUSE THEY DO NOT BELIEVE FOREIGN COMPANIES ARE "DOMINATING" INDONESIAN INSURANCE MARKET, AND BECAUSE THIS MARKET IS REALLY TWO FAIRLY DISTINCT SUB-MARKETS, TWO U.S. INSURANCE COMPANIES HAVE DIFFICULTY ACCEPTING ARGUMENT THAT THEY SHOULD BECOME NUCLEI FOR ANY NECESSARY RESTRUCTURING OF INDONESIAN COMPANIES INTO FEWER, BIGGER AND SOUNDER UNITS. FURTHERMORE, THEY CAN SEE DISADVANTAGES FOR GOI IN POLICY OF REQUIRING FOREIGN LIMITED OFFICIAL USE

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INSURANCE COMPANIES TO ENTER LOCALLY INCORPORATED JOINT VENTURES. FIRST, SOME PROSPECTIVE FOREIGN INVESTORS COULD BE DISSUADED FROM PROJECTS IN INDONESIA BECAUSE THEY MIGHT CONCLUDE THEY COULD NOT GET INSURANCE PROTECTION THEY FEEL THEY REQUIRE. SECOND, COST OF POLICIES TO INSURED COULD RISE, BECAUSE NEW JOINT VENTURE COMPANIES WOULD HAVE FEWER ASSETS AND PREMIUM SOURCES, AS WELL AS GEOGRAPHICALLY MORE CONCENTRATED RISKS, AND

WOULD REQUIRE GREATER AMOUNTS OF REINSURANCE, THUS
LEADING TO LARGER FOREIGN EXCHANGE OUTFLOWS. THIRD,
COMPANY WHICH ALREADY DOMINATES GENERAL INSURANCE MARKET
(P.T. ASURANSI JASA INDONESIA) MIGHT BE STRENGTHENED
FURTHER, THUS REDUCING PRESENT LEVEL OF COMPETITION, IF
EQUITY CAPITAL FOR JOINT VENTURES WHICH IS PUT UP IN NAME
OF SMALL INDONESIAN PRIVATE SHAREHOLDER IS IN FACT PRO-

VIDED BY P.T. ASURANSI.

7. THUS, IF GOI DECIDES TO PROCEED WITH POLICY OF
"ENCOURAGING" FOREIGN INSURANCE FIRMS TO FORM JOINT
VENTURES WITH THREE OR FOUR INDONESIAN FIRMS, THERE
SEEMS TO USG TO BE GOOD REASONS FOR GOI TO IMPLEMENT IS
POLICY ONLY AFTER EXTENSIVE CONSULTATION WITH FOREIGN
FIRMS AND IN LEAST DISRUPTIVE WAY POSSIBLE. ONE U.S.
FIRM SUGGESTS, FOR EXAMPLE, THAT MINIMUM OF TWO YEARS
BE ALLOWED FOR FOREIGN COMPANIES TO DEVELOP FINAL
ASSOCIATIONS W
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